

Marginally negative results for the labor market in September

October 24, 2018

www.banorte.com
@ analisis_fundam

Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

Miguel Calvo
Regional Analyst
miguel.calvo@banorte.com

- **Unemployment rate (September; seasonally adjusted figures): 3.32%; Banorte: 3.26%; consensus: 3.28%; previous: 3.29%**
- **Part-time workers: 6.69% (previous: 7.20%); Participation rate: 59.58% (previous: 59.71%; seasonally adjusted figures)**
- **In our view, the performance of the labor market in September was slightly negative, given that the unemployment rate increased, the participation rate fell, while part-time workers rate was lower**
- **Going forward, we believe unemployment is likely to stay near its current level, as the economy operates near full-employment**
- **Quintana Roo stands out as the federal entity with the largest reduction in the unemployment rate over a year ago**

Slightly negative results from the employment report. According to *INEGI's* report published today, the unemployment rate stood at 3.32% in September (seasonally adjusted), slightly above our 3.26% forecast, and 3bps higher than the previous month. Moreover, the participation rate –which is the percentage of the population with 15 years old or above currently employed or searching for employment– decreased 13bps to 59.58%. Moreover, part-time workers –representing the percentage of employed people looking to work additional hours– stood at 6.69%, 51bps below August's figures.

We view the report as slightly negative, given that the increase in unemployment was coupled with a higher participation rate. Nevertheless, part-time workers decreased to their lowest since February, suggesting that dynamism in terms of job creation could marginally increase in coming months.

Regarding informal employment, the share of total workers in this situation increased in September, representing 56.77% of the total labor force from 56.65% previously. From this figure, those categorized as purely informal decreased 12bps to 27.48% (see table below for details).

INEGI's employment report: September 2018

Seasonally adjusted figures

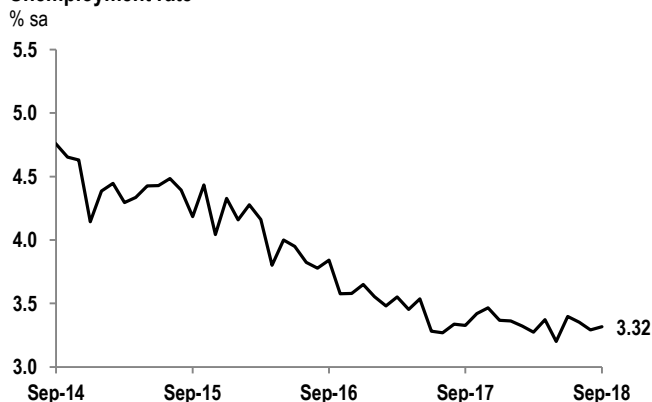
%	Sep-18	Aug-18	Difference
Unemployment rate	3.32	3.29	0.03
Participation rate	59.58	59.71	-0.13
Part-time workers rate	6.69	7.20	-0.51
Informal employment¹	56.77	56.65	0.12
Working in the informal economy	27.48	27.60	-0.12
Working in the formal economy	29.29	29.05	0.24

Source: INEGI

Document for distribution among public

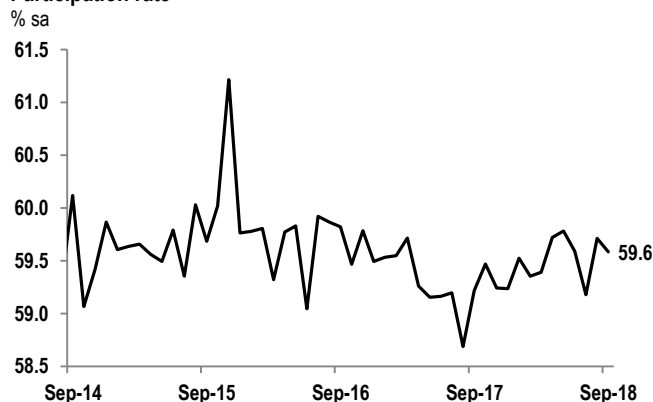
¹ Informal employment considers workers not affiliated to the Social Security Institutes (IMSS and ISSSTE) and the armed forces. However, workers in the formal economy do pay some form of income tax

Unemployment rate



Source: Banorte with data from INEGI

Participation rate



Source: Banorte with data from INEGI

Looking ahead, we believe unemployment will stay low. In our view, unemployment will remain at similar levels in coming months as the economy maintains a relatively good performance, growing near potential. In addition, labor market conditions remain tight, as evidenced by higher-than-average wage increases (slightly above inflation), implying an increase in purchasing power. As mentioned in other publications, we believe private consumption could grow more vigorously in coming months, supported not only by the good performance of the labor market but also by lower uncertainty after the publication of the USMCA, along with resilient consumer confidence. On the other hand, we believe the participation rate and job creation could slow down by the end of the year given employment changes in the public sector as a result of the new administration coming into office, as seen in December both in 2006 and 2012. However, we believe that once new positions are filled, labor market conditions will normalize.

At the state level

Quintana Roo stands out as the federal entity with the largest reduction in the unemployment rate vs. a year ago. Analyzing the non-seasonally figures, (given that seasonally adjusted data for federal entities are highly volatile), we highlight the 0.7pp annual reduction in Quintana Roo's unemployment rate. In this context, the reduction in the entity's unemployment rate was partially explained by the support of the *National Service of Employment Programs* particularly through job banks and as well as the inauguration of the 2nd. Fair "*Abriendo Espacios*" in Playa del Carmen where more than 30 companies and 6 governmental institutions participated. In this respect, Quintana Roo's unemployment rate fell from 3.4% in September 2017 to 2.7% in September 2018, 0.9pp below the national figure. Moreover, we note that the unemployment rate in 15 out of the 32 states showed a sharper reduction than the one at the national level, as shown in the following graph.

Minor and major difference in the unemployment rate by state: September 2018



Source INEGI:

In addition, the labor market in Colima, Tamaulipas, Mexico City, and Oaxaca improved substantially, with significant declines in terms of the unemployment rate. However, in Durango, Hidalgo, Nayarit, Coahuila, and Guanajuato the unemployment rate has increased meaningfully, as shown in the following table.

Unemployment rate by state – September 2018

%; nsa

	Sep-18	Sep-17	Jan-Sep'18	Difference
Quintana Roo	2.7	3.4	2.7	-0.7
Colima	3.2	3.7	3.1	-0.6
Tamaulipas	3.8	4.4	3.9	-0.6
Mexico City	4.7	5.2	4.4	-0.5
Oaxaca	1.7	2.1	1.4	-0.5
Yucatan	2.2	2.6	1.8	-0.4
Sinaloa	3.5	3.9	3.2	-0.4
Campeche	3.6	4.0	3.1	-0.4
Baja California Sur	4.1	4.4	3.7	-0.4
State of Mexico	4.0	4.3	4.2	-0.3
Nuevo Leon	3.7	3.9	3.5	-0.3
Morelos	2.4	2.7	2.1	-0.3
Tlaxcala	3.7	4.0	3.4	-0.2
Michoacan	2.4	2.6	2.1	-0.2
Chiapas	2.9	3.0	2.6	-0.1
National	3.6	3.6	3.3	0.0
Jalisco	3.0	2.9	2.7	0.1
Guerrero	1.6	1.5	1.2	0.1
Queretaro	4.2	4.1	3.8	0.1
Baja California	3.2	3.0	2.6	0.1
Sonora	4.1	3.9	3.8	0.1
San Luis Potosi	2.6	2.4	2.6	0.2
Tabasco	7.3	7.1	7.0	0.2
Puebla	3.0	2.8	2.6	0.2
Zacatecas	3.0	2.6	3.0	0.4
Veracruz	3.6	3.1	3.2	0.5
Chihuahua	3.0	2.5	3.4	0.5
Aguascalientes	3.8	3.3	3.7	0.5
Guanajuato	3.4	2.8	3.4	0.7
Coahuila	4.9	4.3	4.1	0.7
Nayarit	5.0	4.0	4.0	1.0
Hidalgo	3.3	2.3	2.8	1.0
Durango	5.1	3.8	4.2	1.3

Source: INEGI

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

Analyst Certification.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentin Ill Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, and Leslie Thalia Orozco Velez certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte Ixe and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

<i>Reference</i>	
BUY	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Velez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 1670 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1670 - 2707
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454